

## Press Release

### Kalinga Commercial Corporation Limited

November 26, 2021



### Rating Upgraded

Product	Initial Quantum (Rs. Cr.)	Net Quantum (Rs. Cr.)	Long Term Rating	Short Term Rating
<b>Bank Loan Ratings</b>	65.00	65.00		ACUITE A2   Upgraded
<b>Bank Loan Ratings</b>	105.00	105.00	ACUITE BBB+   Stable   Upgraded	
<b>Total</b>	170.00	170.00	-	-

### Rating Rationale

Acuite has upgraded the long-term rating to **'ACUIT E BBB+' (read as ACUITE triple B plus)** from **'ACUITE BB' (read as ACUITE double B)** and the short-term rating to **'ACUIT E A2' (read as ACUITE A two)** from **'ACUIT E A3+' (read as ACUITE A three plus)** to the Rs.170.00 Cr of bank facilities of Kalinga Commercial Corporation Limited. The outlook is **'Stable'**.

The rating upgrade is on account of continuous improvement in revenue of the company coupled with healthy profitability margin. The revenue of the company has increased to Rs.781.77 crore in FY2021 as compared to Rs.608.18 crore in the previous year. The operating profitability margin of the company also stood healthy at 22.72 per cent in FY2021 as compared to 23.01 per cent in the previous year. Further, the rating upgrade also factors the continuous improvement in financial risk profile of the company marked by improving network, low gearing and healthy debt protection metrics during the period.

The rating continues to reflect the sound business risk profile of the company marked by long standing experience of the management in the mining industry. The rating also factors in the healthy order book of the company. However, these strengths are partially offset by the working capital intensive nature of operation and exposure to foreign exchange rate fluctuation.

### About the Company

Orissa based, Kalinga Commercial Corporation established in the year 1991 as a proprietorship firm by Mr. Soumya Ranjan Samal. Later in FY2009-10, it was reconstituted into a limited company. It is an ISO 9001:2008 company. The company is engaged in the extraction of iron ore and providing logistic services. The company undertakes contracts on behalf of PSU's and government entities like Orissa Mining Corporation (OMC), Steel Authority India Limited (SAIL), TATA Steel Mining Ltd. among others. Currently, the company is managed by Mr. Soumya Ranjan Samal along with his brother Mr. Manoj Ranjan Samal and other directors.

### Analytical Approach

Acuite has considered the standalone business and financial risk profile of KCCL while arriving at the rating.

### Key Rating Drivers

## Strengths

- **Established track record of operation and experienced management**

The promoter of the company Mr. Soumya Ranjan Samal along with Mr. Manoj Ranjan Samal, Mrs. Archana Samal, possesses more than three decades of experience in the mining industry. The other directors Mr. Bijay Kumar Otta and Mr. Ramesh Chandra Mohanty, also have experience of more than five decades in the mining industry through other organisation. The company has a longstanding presence in this sector and has established a healthy relationship with the customers such as Odisha Mining Corporation Limited for more than a decade. Acuité believes that the company will continue to benefit from its promoters' extensive industry experience and healthy relationship with customers over the medium term.

- **Healthy scale of operation coupled with stable profit margins**

The revenue of the company stood healthy at Rs.781.77 crore during FY2021 as compared to Rs.608.18 crore in the previous year, thereby registering a year on year growth 28.54 percent. This improvement in revenue is mainly on account of increase in work order execution during the period. Further, the company has booked Rs.649.51 crore till 5th Nov 2021 (Prov.). The company has a strong unexecuted order book of Rs.7592.99 crore as on 31st March 2021 imparting revenue visibility over the medium to long term.

The company has consistently reported healthy operating profitability margin as reflected from the operating margins at 22.72 per cent in FY2021 as compared to 23.01 percent in the previous year. However, this slight deterioration is on account of increase in raw material price during the period. The net profitability margin of the company has also been healthy at 9.74 per cent in FY 2021 as compared to 7.95 per cent in the previous year. Going forward, Acuité believes the profitability margin of the company will be sustained at healthy levels over the medium term backed by their focus on the bottom line and bid in projects accordingly.

- **Comfortable financial risk profile**

The financial risk profile of KCCL is marked by high net worth, low gearing and strong debt protection metrics. The tangible net worth of the company stood strong at Rs.274.89 crore as on 31 March, 2021 as against Rs.201.20 crore as on 31 March, 2020 on the back of accretion to reserves and increase. The gearing levels of the company stood at 0.94 times as on 31 March 2021 as compared to 0.95 times during the previous year. The Debt protection metrics of the company also depict strong operations marked by the interest coverage ratio 7.28 times and the debt service coverage ratio of 1.67 times as on 31 March 2021. Further the company reported healthy net cash accruals (NCA) of Rs.130.51 crore in FY2021 against Rs.67.64 crore during the previous year. Acuité believes that the company will be able to maintain healthy financial risk profile in near to medium term backed by steady net cash accruals and in absence of any major debt funded capex.

## Weaknesses

- **Working capital intensive nature of operation**

The working capital management of the company is marked by moderate gross current asset (GCA) days of 105 days in FY2021 as compared to 95 days in the previous year. The inventory days stood comfortable at 19 days in FY2021 as compared to 18 days in the previous year. The debtor days of the company stood moderate at 49 days in FY2021 as compared to 43 days in the previous year. Further, this GCA days is also emanates from the high other current asset of Rs.52.22 crore in FY2021. Further, the working capital limit has been utilized ~55 per cent for the last six months ended September 2021. Acuité believes any further elongation in working capital would be a key rating sensitivity factor.

- **Highly regulated industry**

The entire business of KCC is concentrated in Orissa region, the largest iron ore producing

state in India. The mining industry is highly regulated by the government ranging from licensing, extraction quantum, and export, etc. There have been continuous regulatory changes in terms of state government's policies towards mining activity. Any adverse change in the regulations can affect its business risk profile, and consequently, affect the credit risk profile of the company.

### Liquidity Position: Adequate

The company has adequate liquidity marked by healthy net cash accruals of Rs.130.51 crore as against Rs.67.64 crore of long term debt obligation during the period. The cash accruals of the company are estimated to remain in the range of around Rs. 185.11 crore to Rs. 233.70 crore during 2022-24 as against Rs.101.18 crore long term debt obligations during FY2022 and in FY2023 respectively. The bank limit of the company has been ~55 per cent utilized during the last six months ended in September 2021. The current ratio of the company stood moderate at 1.10 times in FY2021. The working capital management of the company is marked by high Gross Current Asset (GCA) days of 105 days in FY2021. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accruals over the medium term.

### Rating Sensitivities

- Scaling up of operations while maintaining their profitability margin
- Sustenance of their conservative capital structure
- Timely order book execution

### Material covenants

None

### Outlook: Stable

Acuité believes that KCC's business risk profile is expected to remain 'Stable' on the back of extensive promoter's experience in the mining industry and healthy business risk profile. The outlook may be revised to 'Positive' in case of higher than expected improvement in accruals and debt protection metrics. Further, the outlook may be revised to 'Negative' in case of a sharp decline in accruals, deterioration in profitability margin or deterioration in debt protection metrics.

### Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	781.77	608.18
PAT	Rs. Cr.	76.12	48.34
PAT Margin	(%)	9.74	7.95
Total Debt/Tangible Net Worth	Times	0.94	0.95
PBDIT/Interest	Times	7.28	4.36

### Status of non-cooperation with previous CRA (if applicable)

Not Applicable

### Any other information

Not Applicable

### Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.htm>
- Service Sector: <https://www.acuite.in/view-rating-criteria-50.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

**Note on complexity levels of the rated instrument**<https://www.acuite.in/view-rating-criteria-55.htm>**Rating History**

<b>Date</b>	<b>Name of Instruments/Facilities</b>	<b>Term</b>	<b>Amount (Rs. Cr)</b>	<b>Rating/Outlook</b>
28 Aug 2020	Bank Guarantee	Short Term	26.00	ACUITE A3+ (Assigned)
	Working Capital Term Loan	Long Term	10.72	ACUITE BBB   Stable (Upgraded from ACUITE BBB-   Stable)
	Cash Credit	Long Term	39.00	ACUITE BBB   Stable (Upgraded from ACUITE BBB-   Stable)
	Bank Guarantee	Short Term	39.00	ACUITE A3+ (Upgraded from ACUITE A3)
	Term Loan	Long Term	20.70	ACUITE BBB   Stable (Upgraded from ACUITE BBB-   Stable)
	Cash Credit	Long Term	26.00	ACUITE BBB   Stable (Assigned)
	Proposed Bank Facility	Long Term	8.58	ACUITE BBB   Stable (Assigned)
26 Jul 2019	Term Loan	Long Term	37.71	ACUITE BBB-   Stable (Assigned)
	Bank Guarantee	Short term	15.00	ACUITE A3 (Assigned)
	Working Capital Term Loan	Long Term	15.85	ACUITE BBB-   Stable (Assigned)
	Cash Credit	Long Term	30.28	ACUITE BBB-   Stable (Assigned)

## Annexure - Details of instruments rated

Lender's Name	Facilities	ISIN	Date Of Issuance	Coupon Rate	Maturity Date	Initial Quantum (Rs. Cr.)	Net Quantum (Rs. Cr.)	Rating
State Bank of India	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Not Applicable	0.00	39.00	ACUITEBBB+   Stable   Upgraded
State Bank of India	Working Capital Term Loan	Not Applicable	Not Applicable	Not Applicable	Not Applicable	0.00	7.30	ACUITEBBB+   Stable   Upgraded
State Bank of India	Term Loan	Not Applicable	Not available	Not available	Not available	0.00	9.36	ACUITEBBB+   Stable   Upgraded
Canara Bank	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Not Applicable	0.00	26.00	ACUITEBBB+   Stable   Upgraded
Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Not Applicable	0.00	21.42	ACUITEBBB+   Stable   Upgraded
State Bank of India	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Not Applicable	0.00	39.00	ACUITE A2   Upgraded
Canara Bank	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Not Applicable	0.00	26.00	ACUITE A2   Upgraded
State Bank of India	Working Capital Demand Loan (WC DL)	Not Applicable	Not Applicable	Not Applicable	Not Applicable	0.00	1.92	ACUITEBBB+   Stable   Upgraded

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### About Acuité Ratings & Research

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,850 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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